



I-BANK: FINANCING FACILITIES THAT BUILD COMMUNITIES California's Infrastructure Bank Offers Multiple Low-Cost Financing Options to Promote Economic Growth and Quality of Life

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The California Infrastructure and Economic Development Bank (I-Bank) has begun another fiscal year with a flurry of activity. On August 7th, the I-Bank issued \$300 million of revenue bonds to leverage the State Water Resources Control Board's (SWRCB's) Clean Water State Revolving Fund (SRF) program. Proceeds of the bonds, issued through the I-Bank's Bond Financing Program, will finance a number of local water pollution control projects throughout the state. This represents the first time the SWRCB has leveraged its SRF Program through the issuance of revenue bonds. Currently, the I-Bank is also laying the groundwork to issue nearly \$1 billion of bonds for the California Department of Transportation (Caltrans) for the Toll Bridge Seismic Retrofit Program, which will provide funding for the replacement of the east span of the San Francisco-Oakland Bay Bridge. At the same time, the I-Bank is continuing to provide financing for a variety of local government infrastructure projects through its Infrastructure State Revolving Fund (ISRF) Program, tax-exempt financing for qualified manufacturing companies through its Industrial Development Bond (IDB) Program, and tax-exempt financing for nonprofit organizations through its 501(c)(3) Bond Program.

"The I-Bank exists to promote the economic growth, quality of life, and revitalization of California communities through low-cost financing of infrastructure and economic development projects," said I-Bank Executive Director, Stanton Hazelroth. "The Clean Water and Bay Bridge bond financings, as well as our ISRF, IDB and 501(c)(3) Bond programs, illustrate the many financing vehicles that we offer in support of our mission."

Housed within the Technology, Trade and Commerce Agency (TTCA), the I-Bank is a State of California financing authority governed by a three-member Board of Directors that consists of the Secretary of TTCA, the State Treasurer, and the Director of the Department of Finance. Since January 1999, the I-Bank has approved nearly \$1.8 billion of financing, including 35 ISRF loans totaling \$179 million and

\$1.62 billion of revenue bonds. Notable recent financings include a \$10 million ISRF loan to the Port of Stockton combined with \$10 million of Enterprise Fund Revenue Bonds for core infrastructure related to the reuse of the former Rough and Ready Island Military Installation, IDB Bond financings for Studio Moulding, Inc. of Carson and Reed Leasing Group of Stockton which enabled both companies to build new facilities, purchase equipment and expand operations, and 501(c)(3) Bond financing for the J. Paul Getty Trust for the renovation of its Old Villa gallery, the J. David Gladstone Institutes and, the San Francisco Ballet for new facilities, and the Vine Street Archive Foundation for the Academy of Motion Picture Arts and Sciences' Archive project.

Each of the I-Bank's programs serves a distinct audience and purpose. The ISRF Program, for example, is a source of low-cost, long-term infrastructure financing directly available to local government entities from the I-Bank. Funds can finance a variety of public infrastructure projects important to California's local communities. ISRF financing can be leveraged with local, state and federal grant and loan funds to complete the funding for a project.

Eligible ISRF applicants include cities, counties, special districts, assessment districts, joint powers authorities and redevelopment agencies located in the state. The I-Bank can fund projects in fifteen eligible categories, including: city streets, county and state highways, sewage collection and treatment, water treatment and distribution, drainage, water supply and flood control, public safety facilities, port facilities, public transit, power and communications facilities, solid waste collection and disposal, defense conversion, educational facilities, environmental mitigation measures, and parks and recreational facilities. Financing amounts range from \$250,000 to \$10,000,000 per project.

The ISRF interest rate is fixed for the term of the financing and is set at 67 percent of an "A" rated tax-exempt bond with a weighted average life similar to the I-Bank financing. ISRF financing can be amortized up to 30 years, or the useful life of the asset being financed, whichever is

less. Fees include a one-time origination fee of .85 percent of the ISRF financing amount, or \$10,000 whichever is greater, due at closing, and an annual servicing fee of .3 percent of the outstanding principal balance. The origination fee may be included in the ISRF financing amount. ISRF financing can be the sole source of financing for a project.

Sources of ISRF financing repayment include: water, sewer and other enterprise revenues; general fund revenues; tax increment revenues; assessment revenue, and other recurring revenues acceptable to the I-Bank. ISRF financing can be structured as a loan, installment sale, or lease-leaseback depending upon the revenue stream committed to repay the financing and the borrower's legal authority to enter into the form of financing agreement.

ISRF uses a two-step application process—Preliminary Application and Financing Application. A Preliminary Application can be downloaded from the I-Bank website at www.ibank.ca.gov. Successful Preliminary Applicants will be invited to submit a Financing Application. Preliminary Applications and Financing Applications are accepted on a continuous basis with Financing Applications considered monthly by the I-Bank Board. ISRF staff is available by telephone or can meet personally to discuss projects. Call (916) 322-1399 for more information.

The I-Bank's IDB Program provides tax-exempt financing for manufacturing companies for the acquisition, construction, rehabilitation, and equipping of qualifying manufacturing and processing facilities for private companies. IDBs can be issued by the I-Bank, local Industrial Development Authorities, or by Joint Powers Authorities.

IDB financing carries very specific requirements. IDBs must be used to finance manufacturing or processing facilities and/or equipment. Capital expenditures of the borrower, including the bond issue proceeds, cannot exceed \$10 million during the six-year period beginning three years prior to the date of issuance of the bonds and ending three years after the issuance date. The IDB project must meet established public benefit criteria, including the creation of new jobs. The borrower must generally secure the bonds with a letter of credit from a bank with a minimum long-term credit rating of "A".

Benefits of IDB financing are many-fold, including: low interest rates, with all-in annualized costs for most borrowers running 20% to 35% below conventional alternatives; longer maturities than conventional financing, often up to 30 years; funds can be used for construction and take out to finance land, buildings and equipment; and there is no pre-payment penalty. The IDB financing process can generally be

completed within 150 days. I-Bank staff and a financing team, which typically consists of an underwriter, bond counsel and financial advisor, will assist the applicant through each stage of the process.

Finally, 501(c)(3) Bonds are tax-exempt securities available to nonprofit corporations that have received a determination letter from the Internal Revenue Service that they qualify as an organization of the type described in Section 501(c)(3) of the Internal Revenue Code (IRC). Nonprofit corporations organized pursuant to this IRC section are generally operated for the following purposes: charitable, scientific, educational, health, housing, and the prevention of cruelty to children or animals.

Benefits of 501(c)(3) bond financing include: low interest rates that are usually 2% to 4% less than conventional taxable alternatives; 501 (c)(3) financing allows a borrower to retain endowment and accumulated funds which can then remain invested; the maturity of a 501(c)(3) bond will typically be longer than conventional financing, often up to 30 years; funds can be used for construction and take-out for land, buildings and equipment, and eligible applicants may elect to finance multiple projects in multiple locations. Finally, 501(c)(3) revenue bonds are also not subject to the limitations of California's bond volume cap allocation.

Eligible Uses of 501(c)(3) bond proceeds include capital expenditures such as the construction of facilities and the acquisition of equipment, furnishings, and related items, the refinancing of prior debt at more favorable rates and terms, reimbursing prior capital expenditures, and for financing costs, including costs of issuance, reserve accounts and capitalized interest.

Eligible 501(c)(3) bond projects through the I-Bank include: cultural organizations such as museums, libraries, aquariums, cultural venues, historic preservation, and public broadcasting stations, recreational facilities, such as community centers, local sports facilities, and YMCAs, charitable facilities, including charities and foundations, research institutions and centers, and others including projects that provide a defined public benefit.

The I-Bank generally does not finance projects that qualify for financing through established State financing authorities such as the California Educational Facilities Authority, the California Health Facilities Financing Authority or the California Pollution Control Financing Authority. The I-Bank is also statutorily prohibited from financing housing projects.

Additional information and applications may be downloaded from the I-Bank website located at www.ibank.ca.gov or call (916) 322-1399.

This Offprint was previously published in DEBT LINE, a monthly publication of the California Debt and Investment Advisory Commission (CDIAC). CDIAC was created in 1981 to provide information, education, and technical assistance on public debt and investment to state and local public officials and public finance officers. DEBT LINE serves as a vehicle to reach CDIAC's constituents, providing news and information pertaining to the California municipal finance market. In addition to topical articles, DEBT LINE contains a listing of the proposed and final sales of public debt provided to CDIAC pursuant to Section 8855(g) of the California Government Code. Questions concerning the Commission should be directed to CDIAC at (916) 653-3269 or, by e-mail, at cdiac@treasurer.ca.gov. For a full listing of CDIAC publications, please visit our website at <http://www.treasurer.ca.gov/cdiac>.

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